MSCI CURRENCY HEDGED INDEXES

TOOLS FOR INVESTORS FOCUSED ON THE IMPACT OF CURRENCY

INVESTOR INSIGHTS

With the growth of international investing, it is important to understand the impact of currency movements. All investors are exposed to currency risk when investing abroad. Changes in exchange rates can dramatically impact the performance and volatility of global equity portfolios.

To hedge or not to hedge currency is a question that ultimately depends on an investor's specific circumstances, including risk tolerance, investment horizon and any view on the currency markets. Investors who wish to express a view on currency or remove currency risk often seek to hedge their foreign currency exposure without altering their underlying equity exposure. For such investors, the MSCI Hedged Indexes may be a useful tool as they seek to measure the equity performance of an MSCI Parent Index, while removing the impact of currency.

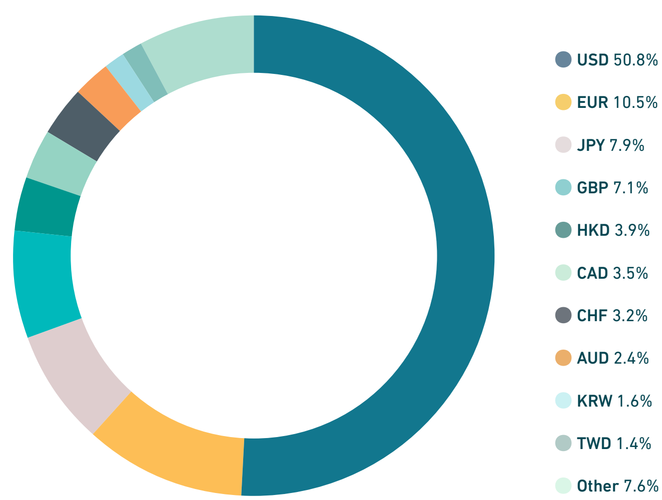
FOREIGN CURRENCY EXPOSURE

- From the perspective of a US-based investor, foreign currencies represent nearly 50% of the currency exposure of MSCI's global index, the MSCI ACWI.
- If an investor is allocating to foreign equities based on their weight in the MSCI ACWI, nearly 50% of the portfolio will be impacted by foreign currency.

IMPACT OF FOREIGN CURRENCY EXPOSURE

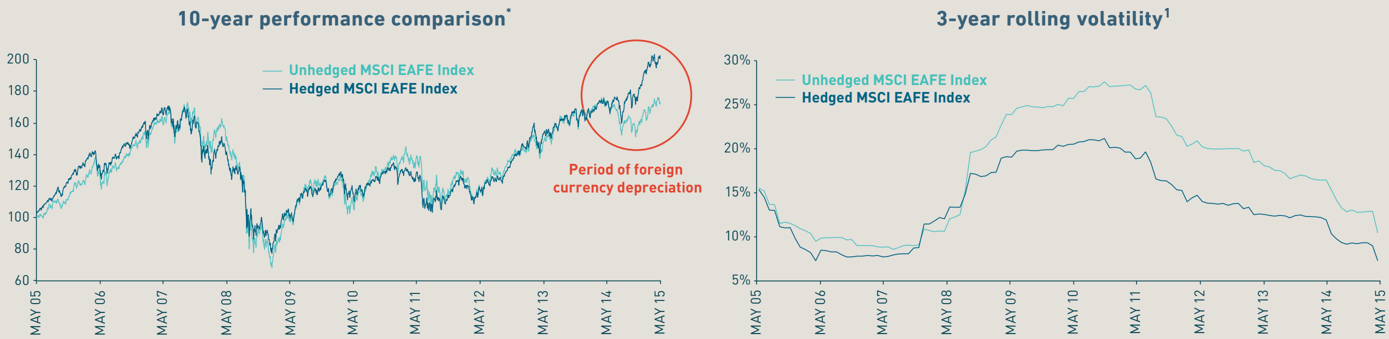
- In the short run, currency risk and returns can be driven by an array of factors, including central bank decisions, changes in inflation, the balance of trade and cross-country capital flows. These factors may cause a currency to *appreciate* or *depreciate* relative to other currencies.
- Investing in foreign equities in periods when the corresponding foreign currency depreciates will reduce the gains from foreign investments. Conversely, if the foreign currency appreciates, the gains from the foreign investments are enhanced.
- For example, from the perspective of a US-based investor, the *unhedged* MSCI EAFE Index (which tracks 21 developed markets outside the US and Canada) returned -0.5% over the last year, while the hedged version of the same index returned 16.6%. By hedging the impact of foreign currency the return increased by nearly 17%.
- In addition, currencies have been shown to fluctuate considerably. Hedging the impact of currency has been shown to reduce overall volatility as evidenced by the standard deviations and rolling volatility in Figure 2 (see next page).

FIGURE 1: CURRENCY EXPOSURE OF MSCI ACWI*



* Data as of May 31,2015

FIGURE 2: MSCI EAFE INDEX: HEDGED VS UNHEDGED (AS OF MAY 31 2015)



	ANNUALIZED RETURNS (NET)[2]				ANNUALIZED STD DEV[2] (%)		SHARPE RATIO[2, 3]	
	1 Yr	3 Yr	5 Yr	10 Yr	5 Yr	10 Yr	5 Yr	10 Yr
MSCI EAFE Hedged 100% to USD	16.6	21.6	11.6	6.9	11.1	14.4	1.03	0.42
MSCI EAFE Index	-0.5	15.6	10.0	5.6	15.7	18.2	0.67	0.30

FIGURE 3: HISTORICAL RETURNS AND VOLATILITY OF UNHEDGED AND HEDGED MSCI INDEXES* (MAY 2005 - MAY 2015)

	Annualized Return (Net)[2]		Annualized Volatility[4]	
	Unhedged	Hedged	Unhedged	Hedged
MSCI Australia	7.97%	5.89%	24.43%	13.84%
MSCI UK	5.26%	7.03%	18.09%	13.72%
MSCI ACWI	6.77%	7.19%	16.55%	14.10%
MSCI Korea 25-50	7.93%	9.56%	27.95%	19.41%
MSCI EAFE Small Cap	7.01%	8.63%	19.76%	16.42%
MSCI Italy 25-50	-1.28%	0.94%	25.92%	21.27%
MSCI ACWI ex USA	6.04%	7.08%	18.85%	14.32%
MSCI Mexico IMI 25-50	10.06%	10.78%	24.28%	17.10%
MSCI Spain 25-50	4.35%	7.00%	26.55%	20.01%
MSCI EAFE	5.56%	6.92%	18.19%	14.42%
MSCI EMU	4.22%	6.51%	23.00%	16.95%
MSCI EM	8.76%	8.72%	23.62%	17.77%
MSCI Japan	4.40%	6.39%	15.59%	19.37%
MSCI Germany	7.55%	9.83%	23.90%	18.46%
MSCI Europe	5.51%	7.08%	20.01%	14.63%

* All hedged indexes are hedged to USD.

1 Annualized standard deviation of prior 3 years based on monthly net returns.

2 Based on monthly net returns data.

3 Based on BBA LIBOR 1M.

4 Annualized standard deviation based on monthly net returns.

MSCI can apply the Hedged Index Methodology to any MSCI index. The MSCI Hedged Indexes include all of the securities and weights of each corresponding unhedged MSCI Parent Index, enabling investors to measure the impact of hedging currency, while holding equity exposure constant. MSCI Hedged Indexes may be an effective tool for those investors who wish to remove the impact of currency risk, or take a view on the impact of currency returns on an overall portfolio.

To learn more about how MSCI Hedged Indexes are constructed, visit www.msci.com